

**DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
APPLICATION INSTRUCTIONS for
SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT
ECONOMIC DEVELOPMENT GRANT and LOAN PROGRAM**

COMPANY APPLICATION

PROJECT SELECTION PROCESS FOR ECONOMIC DEVELOPMENT PROJECTS

Unlike the community development projects in the annual competition, it is not possible to use a point system to select economic development projects for funding. Because of this, the economic development program operates very much like a bank, with loan officers gathering as much information about a project as possible, analyzing this information and making a recommendation regarding funding, with the final decision regarding funding being the responsibility of the Department of Economic and Community Development's Loan/Grant Committee.

In making a funding decision on economic development projects, the Loan/Grant Committee shall give consideration to the following:

- A. Economic development projects must create jobs. The creation of private investment without the creation of jobs will not qualify a project for CDBG assistance. Of the jobs created, 51 percent must go to individuals who, prior to employment in the assisted business, were classified as having low or moderate income. Subsection I provides additional information regarding public benefit issues related to jobs created compared to CDBG investments.
- B. The project costs of activities assisted with CDBG funds must be reasonable. For construction projects, reasonableness will be determined by competitive bidding, including the use of Davis-Bacon wage rates. For the acquisition of equipment, reasonableness will be determined by industry standards. For the acquisition of used equipment, industry standards will be determined through the appraisal of equipment to be purchased, with the asking price of the equipment being compared to the appraisal. For new equipment, industry standards will be based on recent experience with similar equipment. The borrower also has a vested interest in obtaining reasonable costs since the equipment loan must be repaid. The state will retain the final determination of reasonableness which will be based on cost comparison with recently funded similar projects.
- C. To the extent practicable, reasonable financial support must be committed for project activities from non-federal sources prior to the disbursement of federal funds.
- D. To the extent practicable, any grant funds to be provided for project activities must not substantially reduce the amount of non-federal financial support for the activities.
- E. Project activities must be financially feasible. Non-CDBG funds in a project must be sufficient to complete the project as proposed. When an infrastructure grant is involved, the assisted business must demonstrate a high expectation of success and long-term employment of low and moderate income individuals. When a building or equipment loan is

involved, the business must demonstrate a high expectation of success and repayment of the federal funds.

- F. In determining a high expectation of success which includes the long-term employment of low and moderate income individuals and the repayment of federal funds, the Committee will consider the following:
1. Historical financial statements.
 2. Projected financial statements.
 3. Dun and Bradstreet and/or business credit reports on the company.
 4. Marketing plan.
 5. Resumes of management to document operational expertise of the company.
 6. Financial strength of the owner(s) of the company, including personal credit bureau reports.

In analyzing the historical and projected financial statements, comparisons are made to industry standards such as those contained in the Robert Morris Associates Annual Statement Studies (including debt to assets, profit to assets, profit to net worth, receivables, inventory, payables, etc.). Significant deviations from industry standards will result in a more in-depth review.

Dun and Bradstreet and business credit bureau reports are reviewed to identify any recent problems the company may have had.

Marketing plans are reviewed to assess current and future customers, and their continued interest in purchasing goods and services from the company.

Management expertise is reviewed to determine the level of experience in the industry and the management skills of who will operate the company.

The financial strength of the owner(s) of the company are assessed to ensure their ability to provide additional funding to the company if necessary. This may include discussion and verification of personal assets with owners' bankers.

- G. To the extent practicable, project activities assisted with CDBG funds must not provide more than a reasonable return on investment to the owner. The reasonableness of return on investment will take into consideration industry standards such as those contained in the Robert Morris Associates Annual Statement Studies. Projects which, as a result of the CDBG assistance, will have an unreasonably high return on investment will not be considered for assistance.
- H. To the extent practicable, grant amounts used for the costs of project activities will be disbursed on a pro-rata basis with the amounts of other sources.

- I. The public benefit provided by the project activities must be appropriate relative to the amount of assistance provided by grant funds. In determining appropriateness, the Committee will consider such factors as the number of jobs being created, the number of jobs being created for low and moderate income individuals, unemployment rates, income levels, poverty rates, recent plant closings, reliance on declining industries, isolation from centers of population and inadequate transportation facilities, labor force characteristics, and the amount of CDBG funds per full time equivalent job to be created or retained. HUD's threshold test of public benefit regardless of location is the creation or retention of at least one full-time equivalent permanent job per \$35,000 of CDBG funds used. Historically, Tennessee grants have created one job for each \$7,500, and rarely have exceeded one job per \$12,000, and the state would expect that trend to continue. There may be exceptional cases, however, where it is appropriate for the cost per job to exceed \$12,000. These grants will be looked at on a case by case basis, considering the factors listed above that determine the appropriateness of the funding level. However, in no case will the state fund a project in excess of the HUD threshold of \$35,000 per job

Grant and loan requests are presented to the ECD Loan/Grant Committee which consists of 1) the Commissioner of ECD, 2) the Deputy Commissioner of ECD, 3) the Assistant Commissioner of Community Development in ECD, 4) the Assistant Commissioner of Business Services in ECD, 4) the Assistant Commissioner of Marketing and Recruiting in ECD, and 5) the Assistant Commissioner for Tax Administration in ECD. The final disposition of the grant or loan request may be approval, denial, approval with conditions, or renegotiation based on these same criteria.

The final decision on the loan or grant will be made by the Committee based on the following considerations:

- A. Does the project meet the basic federal requirements (especially LMI and public benefit test)?
- B. Is the level of risk acceptable? Based on the analysis of the business plan, marketing plan, historical and projected financial statements, and the organizational structure and expertise of the management of the company, does it appear that the company will remain in production for a significant period of time meeting its employment obligations, and if a loan is involved that the loan will be repaid.

The funding decision for economic development is necessarily subjective by the Committee, but it is based on specific criteria which are designed to identify those companies which hold promise for long-term success and continued employment of LMI persons.

SECTION 1 - COMPLIANCE

- A. **National Environmental Policy Act Requirements.** An environmental review must be completed on the project and should be submitted to ECD within 30 days after the application is submitted. It is important to consider the environmental impact of the total scope of the project, not only the portion funded by CDBG. The ERR reviews the specific site for its past and future uses in the community. If an

industry is moving into a community or increasing its production, the environmental impact of the manufacturing/industrial process itself must be examined considering the existing laws and statutes. If there will be negative environmental impact, efforts to mitigate the adverse effect must be documented. Refer to the Environmental Chapter of the CDBG Manual. The application **will not** be presented to the Loan Committee until the ERR is received and the review process complete. **No costs can be incurred or funds obligated before the ERR process is complete and ECD has given the community written permission to proceed.**

- B. Davis-Bacon Wage Rates.** Provide detailed cost estimates from contractors or engineer for all construction. Construction contractors or engineer must certify that their estimates reflect Davis-Bacon wage rates. These wage rates, known as the Federal Prevailing Wage, apply to all construction for which block grant funds are used. This applies to renovation and leasehold improvements, as well as new construction. Applications requesting assistance with construction, but presenting cost estimates which clearly do not allow for use of prevailing wage rates will not be recommended for funding until estimates are revised. Applying companies or communities will be responsible for building costs in excess of those projected in the application. If equipment purchased with CDBG funds has substantial installation costs, Davis-Bacon may be required for installation labor costs. Check with Program Management for details. If this project includes construction, the Wage Request for Determination and Response to Request Form (*Form 308*) must be prepared by the community and submitted with the application.
- C. Employee Reporting Forms.** These forms must be completed carefully and signed by the company officer most familiar with the new jobs to be created by this project and current jobs at the company. Funding can be provided only for locations or expansions creating jobs of which 51 percent can be provided to persons from low and moderate income families. The State will require that the city or county hold the company responsible for the projected jobs with possible financial penalties for failure to do so, therefore it is recommended that these forms be filled out conservatively.

As a general rule, applicants hired through Job Training Partnership Act (*JTPA*) referrals will automatically qualify as low and moderate income employees; an exception to this rule is made for the displaced worker portion of the *JTPA* program. Family income information must be obtained from the displaced worker hired through the *JTPA* program in order for those employees to qualify as low and moderate income employees for the CDBG Industrial Loan program.

A company will be required to submit to the community and to the State, periodic reports on job creation and the number of low and moderate income persons hired for these jobs. Also, describe the benefit to minorities

- D. Architect, Engineering and Construction Inspection Requirements.** Infrastructure projects or projects involving lease-hold improvements in which the community will retain ownership of the building should incorporate a preliminary engineering report in the application submitted to the State.

Building construction and infrastructure projects receiving CDBG funds must submit a detailed set of plans and specifications to our office for review and approval.

For industrial building construction, a qualified professional registrant's stamp will be required on the appropriate final plans and specifications, while the engineering stamp is required on the final plans and specifications for any type of infrastructure construction project, as well as on the preliminary engineering report, in accordance with state law.

In order for construction costs to be paid on building construction and/or infrastructure projects, an engineer/architect must accept and approve the partial payment estimate. This acts as certification that the work was carefully inspected, that the quantities shown are correct and that the work has been performed in accordance with the contract documents.

- E. Equal Opportunity.** The company and community must comply with Federal equal opportunity requirements, including Title VI of the Civil Rights Act of 1964, the essence of which is that you cannot discriminate in hiring.
- F. Disclosure / Update Report.** Disclosure of the sources and uses of government funds, the financial interests of individuals involved in this project, as well as other government assistance provided must be made on this form. The local government is responsible for completing this report.
- G. Job Assessment.** For infrastructure projects, a job assessment must be prepared. The degree of detail required is dependent upon the CDBG cost per job. The local government is responsible for completing this report.

SECTION 2 - COMPANY INFORMATION

- A. Letter of Intent.** This letter is critical. It must detail reasons for the proposed expansion/location and the company's commitment to locate/expand, desirable time frame and need for CDBG assistance. This letter should stipulate the reasons behind the company's decision to locate in a specific community in Tennessee, the projected date for operational start-up, the type and number of jobs to be created over a 24 month period, total jobs anticipated and a time - frame for hiring, the company's investment, and the company's commitment to provide jobs for low-moderate income persons (*hiring through Tennessee Department of Employment Security, hiring JTPA eligible persons, etc.*).

The Company must also state that they will abide by Federal equal opportunity requirements, and Title VI. Please discuss how the company promotes non-discrimination in its hiring practices and provides benefits to minorities.

- B. Commitment Letters for Other Funding.** All other financing needed for the expansion or location must be in place. Sources of financing must be identified and confirmation provided. It is not adequate to say "industrial bond financing will be secured" or to provide only the industrial board's resolution to issue bonds. A letter of commitment from a financial institution to purchase industrial revenue bonds is required. Commitment letters from lenders must include rate and term of loans. If working capital is to be provided by a bank, provide a copy of the agreement, if available. Attach evidence of commitment of all other public funds involved in the project.
- C. Qualified Independent Appraisals.** These are required for acquisition of used equipment and existing buildings. The city, county or state will approve the appraiser. ECD reserves the right to require additional appraisals.

For equipment loans, include a list of the equipment that you plan to purchase. There must be a dollar amount for each piece of equipment. CDBG loan funds may only be used to purchase new production equipment with a purchase price of \$1,000 or more, or used production equipment with an appraisal value of \$500 or more.

D. Appropriate and Public Benefit

Companies applying for CDBG assistance must show that the loan is Appropriate. The application must document the appropriateness of the assistance as well as the public benefit factors for assistance. The appropriateness of the assistance will cover the following items.

I. Appropriate

- A. The project costs must be reasonable, both for the type of project, and the number of employees to be hired.
- B. Non federal sources of funding must be used where possible, and the CDBG funds are not to be a replacement for available conventional funding sources, both from other lenders, and from the company and its owners.
- C. The project must be financially feasible.
- D. The CDBG funds are not to provide more than a reasonable return on investment to the company or its owners.

II. Public Benefit

Is there a benefit to the public of an expansion or location of a company in a specific community?

Documentation Requested: A letter from the company explaining their reasons for a specific location, the public benefit that this expansion will provide, and the need for CDBG assistance.

The public benefit information should include number and types of jobs that will benefit low and moderate income people, per capita income and unemployment rates, increases to the local tax base, and increases in needed services which will result from a project, and a comparison of these items to a statewide average.

E. Business Plan.

- I. One Page Summary.
 - a. Company Name, Address, and Phone number. Name of person to contact, address, and phone number.
 - b. Management Description.
 - c. Other Funding (*include collateral*).
- II. The Business History and Future.
 - a. Kind of Business (*include SIC code*).
 - b. History.
 - c. Plans for the Future.
 - d. Business Position (*what makes the business different from the others in its field*).
 - e. Detailed Product Description.
- III. Key Personnel.
 - a. Directors and Officers with Banking References.
 - b. Resumes of Principals.
 - c. Labor Costs (*hourly wages to be paid*).
 - d. Equity (*name, amount of investment, and percent of ownership for each investor*).
 - e. Employment Contracts (*enclose*).
 - f. Accounting and Other Professional Help (*names and telephone numbers*).
- IV. Financing Details.
 - a. Financing Sought (*with desired terms*) maximum of 80% loan to value
 - b. Existing Capital Structure (*if you have already sold stock or obtained a loan, give the terms*).
 - c. Collateral Available.
 - d. Loan Guarantees (*list persons willing to be guarantors accompanied by personal financial statement [required form enclosed] and a statement of corporate guarantee*). Include address and social security number.
 - e. Financial Objectives (*ratios, P.A.T., etc.*) of the company for both short and long term.
 - f. Financial Statements.
 1. Historical (*must be reviewed by a CPA*).
 - (a) The last three years balance sheet statements with footnotes.

- (b) The last three years profit and loss statements with footnotes.
 - (c) An interim financial statement current within 90 days.
- 2. Projections * (*with assumptions*).
 - (a) Projected balance sheet and income statements one year from project completion and two years from project completion.
 - (b) Projected cash flow statements, month by month for first and second years.

* Projected financial statements must follow Historicals so no year end gaps exist. The projections must reflect payments for the loan being requested.

If funding is being requested under the rate of return requirement of Necessary and Appropriate, two complete sets of projections are required; one with CDBG rates and terms and one with conventional financing rates and terms.

V. Marketing Plan.

Complete the marketing questionnaire attached.

VI. Risks.

Every project has risks. We want to know that you recognize and are prepared for them.

VII. Previous Application.

Have you applied for and/or received a CDBG loan or grant in Tennessee or another state? If so, please list details (*i.e., state, amount, project description, etc.*).

VIII. Community Eligibility.

Community Development Block Grants (*CDBG*) administered by the State of Tennessee are required by law to be awarded to small communities; larger cities (*entitlement cities*) in Tennessee receive their funds directly from the Federal Government. The United States Department of Housing and Urban Development (HUD) allows the state to award loans or grants to companies located within the city limits of Jackson, Murfreesboro, Oak Ridge, Chattanooga, Clarksville, Johnson City, Kingsport or Bristol, provided that those companies can prove that at least 51% of their employees reside outside the city limits of the city in which the project is located. HUD does not allow any projects funded with CDBG Small Cities Grant funds to be located within Knox County, Davidson County, or Shelby County.

IX. Survey Requirements.

a. For Existing Industries.

If your company is located in Jackson, Murfreesboro, Oak Ridge, Chattanooga, Clarksville, Johnson City, Kingsport or Bristol, you must perform a survey to determine that at least 51% of your employees reside outside the city limits. If less than 51% of those persons reside outside the city limits, your project is ineligible. If 51% or more of the persons reside outside the city limits, then documentation of the survey must be submitted with your application.

If your project is funded, a second survey must be taken after all jobs related to this project have been filled. Again, 51% of your total employees, at that time, must reside outside the city limits. Documentation of the survey must be submitted to our office.

b. For Start-Ups.

If your project is funded, a survey of your employees must be taken after all jobs related to this project have been filled. Fifty-one percent of your total employees, as of that point in time, must reside outside the city limits. Documentation of the survey must be submitted to our office.

X. Company and/or Corporate Documents.

Your company will need to provide pertinent corporate documents showing authority to conduct this transaction. These documents include the corporate charter, (i.e., articles of incorporation), certificate of incorporation and the corporate by-laws.

In addition, your company must provide documentation that your company is in good standing in your state of incorporation and authorized to conduct business in Tennessee.

After loan approval and prior to loan closing, you will also need to provide a resolution from the board of directors authorizing this transaction.

PROJECTED INDUSTRIAL EMPLOYEE REPORTING FORM

(Name of Grantee)

(Name of Company)

(Signature of Company Official)

ESTIMATED EMPLOYEE INFORMATION

[illegible]

Projections should cover a 24 month period **after** business start-up.

_____ Projected or actual number of unskilled persons② to be hired and trained by the company.

_____ Projected or actual number of unskilled persons^② trained by a State job training program.

① Individuals enrolled in the JTPA "Dislocated Workers Program" do not automatically count as low/moderate income persons.

② Those persons who can be hired without specific skills or job categories and qualify for training under JTPA.

CURRENT INDUSTRIAL EMPLOYEE REPORTING FORM

(Name of Grantee)

(Name of Company)

(Signature of Company Official)

EMPLOYEE INFORMATION

Job Category	Total	Minority	Female Head of Household	Male	Female	Disabled	Elderly	Low/Moderate Income Persons ❶	Percentages STATE USE ONLY
TOTALS									

❶ Required if retention of jobs is to be discussed.

BUILDING CONSTRUCTION QUESTIONNAIRE

1. Who will own building? _____

2. Will this be a negotiated bid? ☐ Yes ☐ No
a. If yes, is contractor already known and if so, who is it?

3. Will there be more than one contractor working on the job? (building, site preparation, landscaping, etc.)

4. Who will design and stamp the plans?

a. Check one:

architect ☐ engineer ☐
5. Is building pre-fabricated? ☐ Yes ☐ No
a. If yes, which company? _____
6. Who will inspect building? _____
7. Does the city/county have building codes and/or a code enforcement program?

☐ Yes ☐ No
8. Estimated time for construction. _____
9. Square footage _____
10. Estimated cost \$ _____

EQUIPMENT ANALYSIS WORKSHEET

1. Equipment Name: _____
2. Description of Use: _____

3. Estimated Cost of Equipment: \$ _____
4. Estimated Cost of Installation of Equipment: \$ _____
5. Installation Cost Will Be Paid for with:
☐ Private funds ☐ Other funds (*Specify type*) _____
6. Who will install?
☐ Vendor ☐ Contractor ☐ Force Account ☐ Other _____
7. Method of Installation: (*i.e., bolted to floor, attached to ceiling or wall, embedded in concrete, attached to existing equipment, free-standing, etc.*)

8. Any structural modifications? ☐ Yes ☐ No If yes, explain:

9. Any upgrade as a result of installation? i.e.:
☐ Electrical ☐ HVAC ☐ Plumbing
☐ Gas Lines ☐ Other
Explain:

10. New Equipment _____ Used Equipment _____

COMPANY AND/OR CORPORATE DOCUMENTS

Please supply a copy of the company's Certificate of Incorporation, Certificate of Existence and Certificate of Good Standing in the State of Tennessee.

PROJECTED MINORITY BENEFIT BREAKDOWN

1. African-American, not Hispanic
2. Hispanic
3. Asian or Pacific Islander
4. Native American/Alaskan Native

[illegible]

CURRENT MINORITY BENEFIT BREAKDOWN

1. African-American, not Hispanic
2. Hispanic
3. Asian or Pacific Islander
4. Native American/Alaskan Native

[illegible]

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